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Statement by the Hon. **ABUL MAAL A. MUHITH**,
Governor of the Bank and the Fund for **BANGLADESH**

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Fund-Bank Annual Meeting 2011

1. Last year as I cogitated on my return to the Fund-Bank Annual Meeting after more than a quarter century I noticed the diminutive form of the meeting. I regretted the absence of the financial fair that went along with the Annual Meeting in the past. Now after having reviewed the matter more carefully I feel more strongly that the old format should be restored and the opportunity for contacts and interactions over a five day period be reinstated. This is more urgent because multilateral action has become more crucial in these days of uncertain financial turmoil. The assembly of the financial wizards from countries and continents and the warmth that the events generated from engaging interactions and opportunities for settlement of many bilateral issues between countries should not be lightly brushed aside. One may regret that what used to be speeches expressing the views of Governors before the Plenary are now reduced, thanks to technological advance, to statements that float in the web. I hope to move fellow Governors for a reconsideration of the format of the Fund-Bank annual gathering as it looks to me that a return to grand gathering affording more interactions, more exchange of ideas, more coordination of policies, more concerted actions and more contact building is very important in these days of a more integrated global economy facing too many uncertainties.

Global Recovery and Uncertainties

2. The financial crisis of the recent past led to a very healthy demonstration of global action and it not only inspired hopes but also led the process of an early recovery. In fact, recovery began with Asia playing a vital role in the process. The maintenance and enhancement of domestic demand not only in China and India but equally so in Korea, Singapore, Indonesia, Malaysia, Philippines, Bangladesh and Vietnam halted the slide in economic growth

and spearheaded the global recovery. But it seems that the crisis is not really over and difficulties in USA and Europe are of the greatest concern now. It should not be forgotten that it is still the export market of the developed countries that has the capacity to sustain the growth momentum over time. With high unemployment levels and unsustainable fiscal deficits in some developed countries the health of the global economy is direly threatened and we apprehend that the developing countries will be the worst victims of the current uncertainties. Price rise with pick-up in recovery is not unexpected but the level of price hike in food grains as well as fuel is of a different nature and inflationary pressure as a result is really threatening the recovery. It is our urgent appeal that economic and financial housekeeping in USA and Europe should be properly coordinated to avoid destabilization of the world economy and prevent a halt in the process of recovery.

Gender Equality and Women Empowerment

4. The World Development Report this year has focused attention on gender equality which is a core development objective of the Millennium Development Goals. Identified as *smart economics*, it enhances productivity, improves prospects of future generation and make institutions more representative by mainstreaming the less involved other half in the service, agricultural and industrial sectors. We are glad to see the coverage Bangladesh received in the Gender WDR and the acknowledgement of the tremendous progress made in my country in improving gender norms and outcomes. It is true that the country is led by female leaders for nearly a decade and a half but the greater truth is the over-all status of women in society and their climb in the economic ladder over a period of forty years since the emergence of Bangladesh. The gender parity in educational outcomes mirrored by the rapid entry of females in the labor force as well as sharp improvements in female health indicators and social norms are results of our serious emphasis on gender. It involves strong commitment of the Government to gender parity and is reflected in the budget allocation of 26.4 percent in specifically gender-related expenditure. For the third consecutive year we have provided gender break-down of major budget allocations and it accounts for 4.8 percent of GDP. This is a significant allocation as public

expenditure in the country has only been increased to about 17 percent of GDP this year.

For Bangladesh, investment in women welfare is particularly important because in our country poverty has a female face. Women are vulnerable to economic discrimination, they bear the burden of feeding the family and themselves go hungry most of the time, many of them as abandoned wives have the responsibility of bringing up the children, they are discriminated in salaries and positions and the veil prevents them substantially from earning opportunities. In a country with high poverty incidence female poverty needs to be specially handled and that is done in Bangladesh.

We have enacted a new legislation called Family Violence (Prevention and Protection) Act 2010 in order to give women some protection. Again in March this year, we have introduced National Women Development Policy. This legislation and more enabling policy guidelines for women development would offer further protection to women and advance women mainstreaming in the national development process. Our programmes on stipend for women education, employment preference for women in education, micro-credit policy in which women borrowers are preferred, women focus in pre and post disaster management are designed to promote women development. In addition, we have a strong affirmative action plan for advancement of women in public services and representation in elective positions.

Job Creation - the Big Challenge

We welcome the selection of the all-important topic of job creation as the focus of the WDR of the next year. This topic has come to the centre stage for what is termed jobless recovery of the global economy and hence the inherent fragility of the recovery process. The massive job losses the industrial and emerging countries suffered following the financial crisis is a matter of serious concern for policy-makers. For Bangladesh this is a matter of the greatest importance as it is directly related to the main target of our economic development programme; i.e, poverty alleviation. We are required

to deal with the challenge of absorbing 1.8 million new entrants into the labor force each year and provide them with meaningful earning opportunities. Our task is made more difficult as we have a backlog of over 2.5 million of unemployed and under-employed labour in our hands. We are doing quite well in employment creation with our programmes of rural works and micro-credit but we are lagging behind in systematic full time job creation meaning increasing wage employment in the formal sectors. We absorb new labourers in agriculture and services by sub-dividing the work of one into those of many. We view the employment creation strategy as both an intermediate input towards poverty reduction but also as a goal in itself as it promotes social stability. As such the Government of Bangladesh has a multi-pronged employment creation strategy which covers developing a conducive environment for the private sector, strengthening basic education followed by vocational training and skills development, promoting manpower export as well as direct employment generation programmes.

Poverty elimination is the biggest challenge in Bangladesh. About a third of the population is still below poverty line and extreme poverty haunts nearly half of the poor. We devote up to 53.12 percent of our budget for poverty reducing expenditure which is 9.66 percent of GDP. Such a thrust was necessary to reduce poverty from 59 percent in 1992 to 31 percent in 2010. In the South Asia region Bangladesh has been doing quite well in human development but income poverty is still very high in the country. Poverty alleviation demands large-scale employment generation in Bangladesh and that can be best provided by wage employment in the manufacturing sector. It is a growing market of 160 million people and open transit policy recently adopted by the country augurs well for development of the country as an economic hub of the region encompassing North- east India, Nepal, Bhutan, Myanmar and South-west China.

Climate Change and the Need for Binding Commitments

Climate change adaptation remains a central policy priority in our strategy to protect the environment in Bangladesh and thus the environment for all mankind. For no fault of its own Bangladesh is one of the worst victims of

the climate change syndrome. As a frontline country exposed to frequent natural disasters, Bangladesh has on its own developed an efficient disaster risk reduction strategy in significantly containing the loss of lives and property. It developed a much acclaimed Bangladesh Climate Change Adaptation Plan and National Action Plan for Adaptation. To implement this Strategy and Action Plan as expeditiously as possible, the Government for the last three years has been allocating annually from its own resources US\$ 100 million for adaptation programmes to a Trust Fund that is undertaking serious programmes on a regular basis. It is, indeed, ironical that the poor Bangladesh has to pay so dearly to adapt itself to adverse climatic changes caused by reckless consumerism of the industrialized world. I notice that there is a tendency to support programmes of studies and research on climate change but hold back when it is actually a project for adaptation or mitigation. Perhaps this is a cautionary approach but it looks to us that there is a reluctance to commit substantial funds in climate change projects. Bangladesh Climate Change Resilience Fund established with donor participation has so far attracted only \$ 223 million in grant and soft loan from its development partners. The promises of Copenhagen are yet to materialize. Cancun promised us a Green Climate Fund but we have not heard firm commitments flowing into the kitty. The whole world, particularly the afflicted and the vulnerable countries, look towards what we resolve here now and what message we take to Durban. Kyoto targets beyond 2012 must be definitively fixed. We have an obligation to report to Rio +20 next year that human kind is determined to save mother earth and protect the specie from the ravages of climate change. Bangladesh is acutely aware of the fact of rising sea level or marching desertification. Even though we drain the waters of a basin that has only about 6 percent in our territory we have an extended period of draught in our country. And the threat of submersion into the sea is very real for a population of about 30 million of our countrymen.

IDA 16th Replenishment and Relief for the Poor

In my statement for the Bank Fund meeting last year I stressed the need for scaling up the contribution of richer countries to the IDA. This is because

the soft credit is mainly used for development activities in agriculture and water resources, education, healthcare, transport and energy sectors of the low income countries (LIC). It is heartening to learn that this time in Brussels belying all pessimistic predictions the IDA 16th Replenishment received a generous commitment of US\$ 49.4 billion recording a growth of 18 percent (which came pretty close to my demand of US\$ 52 billion). This, indeed, is an excellent measure of commitment to development of the less fortunate countries by the better off brethren. I must convey my appreciation to the Bank for committing US \$ 2.2 billion of IDA resources for programmes in Bangladesh in the year just concluded, which happens to be the largest annual IDA allocation in our history. I am also grateful for the indicative allocation for my country of SDR 3,189 million for three fiscal years covering IDA-16 Replenishment, making Bangladesh the largest potential beneficiary of IDA credit.

In passing I would like to comment that the correction that we have witnessed recently in terms of voice and participation in decision making in the Bank and the Fund in favor of some emerging countries has not, to our disappointment, been matched by their participation in the IDA Replenishment exercise. Rights should be matched by responsibilities, particularly when we see clearly a rebalancing of global resources taking place.

I welcome the decision of the Bank for the innovation of a new financing instrument called P4R (Program for Results). As opposed to project financing, the fund against a program will be released on the evidence of IDA satisfactory to a series of pre-set, mutually agreed Disbursement Linked Indicators (DLIs). The disbursement would be made once or twice a year as mutually agreed upon. The need for such an instrument of financing was felt for years by the LICs, particularly because the traditional project financing entail IDA-imposed conditions which significantly delays project execution. I must warn, however, that implementation of the new modality must be made with considerable flexibility because initially you have a lot of teething problem with a new modality. We experienced a great deal of delay and even problem with programme design as we moved to sector lending

from project lending in my country in health and nutrition and primary education sectors.

Bangladesh, like other low income countries, would like to see the criteria of IDA allocation retained following the present guidelines on Poverty, Population and Performance and any effort of to change the allocation principle will defeat the very purpose for which IDA was created.

Food Price Hike and Intensification of Poverty

The food price hike seems to have become a recurrent phenomenon in recent times. The incidence of food riots seen in several countries since 2007 sent an alarm bell across the globe. But yet we have a 26 percent rise in food prices this year. The L'quila Summit saw President Obama declare setting up a US\$ 20 billion Global Agriculture and Food Security (GAFS) Fund underscoring that in global context there was little investment in agriculture in the last 30 years. This intervention was timely and Bangladesh immediately benefited by securing a grant financing from a trust fund administered by the Bank. Rice, the staple food of the people of Bangladesh, is a thinly traded item. The rice producing countries consume most of the rice they produce with only 4 percent of global rice production traded internationally. The few rice-surplus countries like Myanmar, Thailand and Vietnam, on the slightest signal of an impending drought or other natural calamities, first stop exporting rice. This makes the rice importing countries like Bangladesh extremely vulnerable and nervous. We trust that food production will receive regular and consistent attention and food marketing should follow some internationally accepted norms.

The vulnerability on account of food price hike in Bangladesh is amplified in terms of inflation because food items receive 65 percent weightage in our Consumer Price Index (CPI) basket. A rise in food prices for Bangladesh carry huge impact in general price index. It is also noticeable that international food price determines national prices in the integrated global economy of today and a food surplus country even cannot insulate itself from international price movements. The Bank and the Fund, I trust, must

have a broad appreciation of this constraint faced by the policy makers of my country. They should do some hand holding during these trying times. A regional and global initiative for a globalized world is necessary for price stability especially for food items. Let us not forget that Lord Keynes thought of the Bretton Woods set-up in the context of instability of wheat price in pre-War period.

Power and Energy - Another Area for International Action

Power and energy remain crucial for development. My country continues to reel from power and energy shortages caused by neglect of long term planning coupled with high level corruption in the sector. In order to scale up power supply, under the direct initiative of Prime Minister Sheikh Hasina we resorted to some quick fixes by installing power plants under rental power plants and independent power producers' contracts to tide over the acute crisis and have the breathing time for longer term solution of the problem. While there is, indeed, perceptible improvement in terms of production and lesser frequency of power outages, but this has been achieved at a price. These quick fixes have a disquieting impact on the both the budget and the balance of payment. The Government by way of subsidy had to provide in its budget for this fiscal US\$ 1.2 billion to plug in the price and tariff differentials of Bangladesh Petroleum Corporation and Power Development Board. With no immediate prospect of increase in natural gas production and high oil price, Bangladesh is in a precarious situation. To rein in the subsidy within tolerable limits the Government is actively considering price and tariff adjustment of petroleum and power to shore up the difference. The Government is also borrowing short from the international market to foot the huge import bill at high price of oil.

Energy resource development is not very easy except when you are endowed with fossil fuel deposits. Although research for alternative energy resource received a strong push in the 1970s, it has not moved forward with any significant inventions or discoveries. The harnessing of radiant solar energy has not become less expensive; other renewable resources are also not available except at high expense. The dream of hydrogen economy is still in

the science fiction area. But energy is the capacity for work by human beings and energy use is at the root of better living standards and economic growth. The volatility in the fuel market is extremely unfavourable for the economic and financial health of the world. This market demands some kind of planned regulation and this should not be avoided at any cost. In the new architecture for the global public sector regulation of energy market is as important as regulation of the financial market. Indeed, we have to move forward with regulation of food market and the fuel market as starting points for restructuring of the global financial and monetary system.

Budget Support by the Bank and Credit Facility of the Fund

Budget support by the Bank is a programme of recent origin although local currency financing by project credits can be treated as its predecessor. This is usually based on evaluation of good programmes of national budgets with creditable targets for poverty programmes or growth objectives. IMF received strong resource injection in the wake of the recent financial crisis to help countries to tide over balance of payment crisis or threats of such crisis. The beneficiaries of such support programmes have been the better off developing countries. As IMF had little to do with problems of less developed countries except in respect of the HIPC initiative, it thought of helping LLDCs with the ECF programme. The budget support and ECF programmes of the Bank and the Fund are meaningful only if they can be acted upon quickly and they are not cluttered with what is fearfully termed conditionality.

Bangladesh seeks budget support from the Bank under PRSC framework and balance of payment support from IMF under ECF to tide over the difficult situation of lack of fiscal space for the country. In order to contain budget deficit within 5 percent of GDP and tackle the looming balance of payment difficulty, the country is in need of such help. It has managed its economy with credit in the last two years and has good plans for the current year as well. It has maintained export growth, expanded domestic demand, provided reasonably for labour absorption, performed strongly in the rural and agriculture sectors, met the inherited crisis of power supply and

recorded over all growth rate near 6 percent per annum. (In fiscal 2011 the growth rate has been 6.7 percent and the outlook for 2012 is over 7 percent.) For other reasons as well some kind of budget support is the rightful claim of my country. We have managed our debt situation very creditably despite the high incidence of poverty and lack of domestic savings. We have been very prudent in balancing our international payments despite the need for large imports for both investment and requirement of basic supplies. There must be some reward for such good performance and careful husbanding of scarce resources. Such reward can be in terms of programme support that is basically dedicated to poverty alleviation. It is poverty alleviation that moves Bangladesh to emphasize rural and agricultural development. It is poverty alleviation that drives Bangladesh to innovate micro-credit and other employment generation programmes. It is poverty alleviation that is at the root of all human development efforts in Bangladesh such as in basic education, non-formal education, skills training, water supply & sanitation, women empowerment and gender equality. It is welfare of the deprived and the powerless that led Bangladesh to devise various food and social security programmes. It is again poverty alleviation that is the driving force behind policies for public revenue raising and public investment acceleration that call for tax reforms and spending planning. All these efforts deserve programmes like budget support or ECF accommodation.

Support for Transformational Project:

The current Country Assistance Strategy of the World Bank for Bangladesh and the policy directives of the Bank underscore the need for World Bank engaging in large projects that would bring in transformational impact in terms of growth and poverty reduction. The Padma Bridge which would connect the country with the south-west part of the country is one such project. The construction of the bridge has a social dimension and the connectivity would go a long way in bolstering national integration in the minds of the people of the region as well as in economic integration of the country. The Padma Bridge would reduce poverty in the south-west region by 1 percentage point and raise GDP of the region by 1.7 percent. In the national context poverty would be reduced by 0.8 percent and GDP would

get a boost by 0.56 percent. The Bangbandhu Bridge over Jamuna, presently the longest bridge commissioned in Bangladesh showed that the real benefit far exceeded the initial estimates.

Power rental and small independent power producers' plants are not expected to bring in transformational change in power sector that Bangladesh is looking for. Its accretion of wattage is offset by countervailing load of energy import bills of unbearable magnitude. What is required is going for bigger units. A mega-size coal-fired power plant producing 1000-2000 megawatt electricity using coal from the northern part of the country is technically feasible. We are aware of World Bank's aversion to financing fossil-fuel power projects in the light of environmental considerations but the World Bank is known to have financed coal-fired large projects in South Africa and Botswana. An energy-starved country such as Bangladesh can legitimately request the Bank to finance power plants using coal and help the country in securing the least polluting option for coal-based power plants. The country is also in need of large projects for transport development, especially in roads and railways. The demand in this sector has escalated as a result of the choice of the country to be a transit territory in South and South-west Asia and thus transform itself into an economic hub in bustling Asia of the twenty-first century. Thus for transformational impact in the quality of life of the people of Bangladesh I would urge upon the international public sector in money, finance and trade to play a pioneering role.

Restructuring of the Global financial, monetary and trade Regime

The traumatic events that led to the Global Financial Crisis have once again concentrated attention on restructuring of the international public sector initially designed by the Bretton Woods conference. We should now take up simultaneous and complementary restructuring of the three organizations namely World Bank, IMF and WTO - the original three legs of the Bretton Woods system.

- We have found the G20 informal mechanism highly effective. This should be given some legal clout.

- We thought of pumping liquidity by issuing SDRs but refrained from ushering in a new and universal medium of exchange. We should think about liquidity management by the global public sector.
- Although the recent crisis has not suffered from exchange rate volatility but the nebulous situation in this market should be considered in devising the new architecture of the global monetary and financial system. Let us begin with taxation of currency transactions and thus begin recording of transactions.
- We are convinced that IMF must improve its monitoring and surveillance responsibility, especially by exercising symmetric jurisdiction over all countries, big or small and rich or poor. That should be its main function and early warning system should be its main concern.
- We have felt that the banking sector should be better regulated and public intervention should have a role in it. Possibly the Basel mechanism must be coordinated with IMF watchdog responsibility.
- We observed that the World Bank is functioning very well in mediating surplus resources for investment in deficit countries at least cost. Should it not be its main function now?
- We also have observed that the requirements of a small group of countries (the so-called least developed, land-locked, small island developing and climatically vulnerable countries) is qualitatively different and cannot be solved by the usual economic demand and supply equation. What kind of institutional mechanism should evolve for both relief and development work?
- IDA window of the World Bank has done very well, indeed. But the development of the “fragile and vulnerable” least developed countries defies solution; the number of LLDCs is increasing while graduation out of it is rare. How do we overcome the ignominy of poverty and hunger in a world of affluence?
- We have not found ways for trade financing to keep up global demand even when we have plenty of liquid resources of big savers. IMF, IFC and WTO have a duty to devise trade financing system for the future.

- We are at a loss in managing the volatility of commodity prices, especially of food grains and petroleum crude. Management of the two markets has to be internationally coordinated and regulated. All the three institutions have to be involved in the action.

The restructuring exercise should be based on the experience summed up here. In the past I have put forward some suggestions and can easily offer some more. But they will be meaningful only when the G20 or the Board of Governors inscribe restructuring as an agenda item. I propose that such a step be taken now.

Thank you for providing me the opportunity to share my thoughts and anxieties with you. Thank you again for reading my statement on the website.